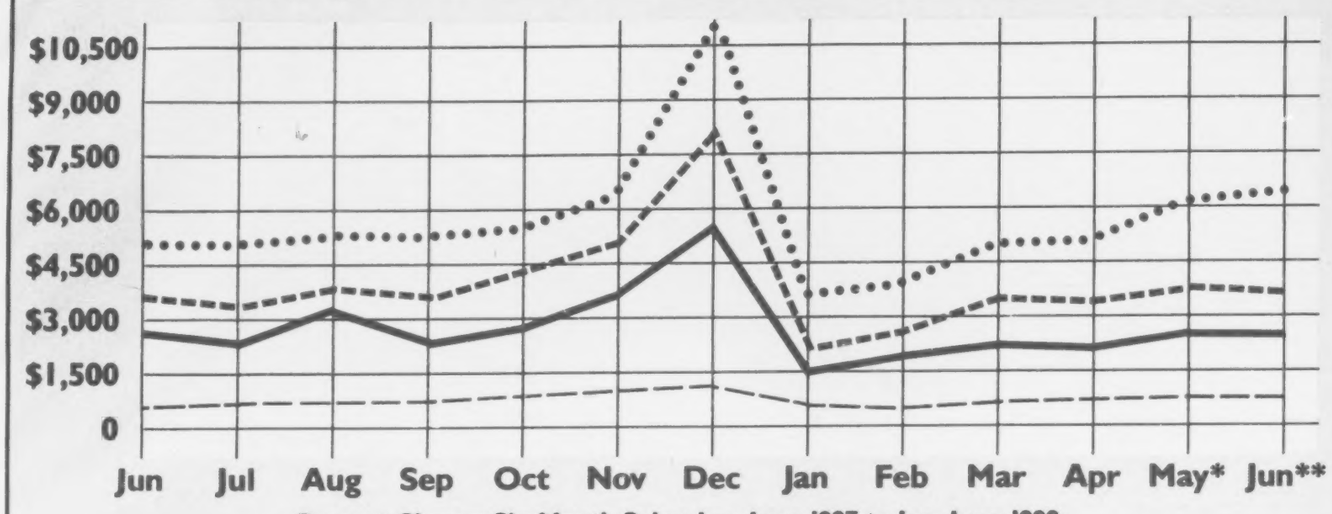
6-Month Discounter Sales Up 10.7%

1987-88 Discount Department Store Sales

Retail Sales for General Merchandise Group (unadjusted)

(In Millions of Dollars)



Percent Change Six-Month Sales, Jan.-June 1987 to Jan.-June 1988:

Discount Dept. Stores	10.7%	National Chain Dept. Stores	(4.6%)
Conventional Dept. Stores	2.5%	Variety Stores	(2.1%)

*revised **preliminary

Source: U.S. Commerce Dept., August, 1988.

(Continued from page 7)

In June, retail sales at all retail divisions in the general merchandise group recorded sales declines, the least of which was posted by discount department stores.

Sales at discount department stores in June fell 1 percent from May to an unadjusted $6.1 billion. Compared to June 1987, however, sales at discount stores jumped by 12.5 percent.

Sales were not as robust at the other retail outlets, according to Commerce Department figures.

June sales within the entire general merchandise group fell 2.5 percent to an unadjusted $14.35 billion, 5.7 percent ahead of June 1987.

Sales at conventional department stores also fell in June from May, by 4 percent to an unadjusted $3.6 billion. But sales were up by 5 percent from last June.

Both national chain department stores and variety stores recorded declines for the May-to-June and June-to-June recording periods.

Retail sales fell 2 percent in June from May at national chain department stores, to $2.7 billion, unadjusted, and by 3.9 percent from June 1987.

Sales at variety stores dropped 2.5 percent in June from May, to an unadjusted $643 million, down 1.7 percent from last June.

Overall, retail sales edged up 0.5 percent in June to $137 billion, unadjusted. Not including automobile sales, retail sales were even with May, at $103.6 billion, unadjusted.

June's sales declines were on par with normal seasonal shopping patterns, according to a Commerce Department spokesman.

For some merchandise departments, particularly apparel, the June sales decline was just more of the same.

Sales at apparel and accessory stores fell 2.3 percent in June to $6.37 billion, unadjusted, below both the May and April sales levels.

There were some bright spots in June, however.

Sales at book stores surged 9 percent in June from May, to $486 million, unadjusted. Sporting goods and bicycle shops also increased sales, up 4.7 percent in June from May, to $1.38 billion, unadjusted .

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Hard Lines

Oshman's is set to open two more SuperStore units, such as this one in Princeton, N.J., indicating that the sporting goods megastore concept is ready to take off.

Sporting Goods Giants Score Extra Points

By Richard C. Halverson
Nationwide DSN Report

After spending 18 years in the nest, the fledgling sporting goods megastore concept is ready to take wing and should be flying high by next spring.

That's when K mart opens its first—and long delayed—Sports Giant warehouse membership club of 50,000 square feet.

At least nine sporting goods specialty stores, either warehouse-style or conventional—in the 30,000-square-foot to 50,000-square-foot range—are set to open this fall. At least 16 more will follow in 1989, starting with four next spring. As of presstime, some 28 stores that fit the

(Continued on page 102)

Top Sporting Goods Specialty Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 1/88	Number of Stores 1/87	Average Store Size (In Sq. Ft.)
Herman's, Carteret, N.J.	$762	$630	21.0%	242	200	10,000
Thrifty Corp., Los Angeles, Calif.	494	359	37.6	160	149	NA
Oshman's, Easton, Texas	333	323	3.1	213	214	10,000
Sportmart, Niles, Ill.	149	99	50.5	18	12	40,000
Academy, Houston, Texas	64	58	10.3	22	18	NA
Irving's Sport Shops, Springfield, Va.	15	13	15.0	18	18	4,000

Herman's includes Sunset Sports.
Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.
NA—not available

Source: DSN research

MARKETWATCH

CHICAGO — **Trak Auto**, Landover, Md., has picked the sites for 23 more stores in the Chicago market, which will push its store count here to 93. When built, the new stores will give Trak Auto a total of 550,000 square feet of retail space, or more than twice that of its nearest competitor in the automotives aftermarket. Trak Auto continues to seek additional sites, a spokesman said.

* * *

NORTH HAMPTON, N.H. — **Wisconsin Toys**, Milwaukee, Wis., opened its 33rd Toy Liquidators unit in a factory outlet mall here. The 6,000-square-foot store features brand name toys at closeout prices. In June, Wisconsin Toys opened a store in the Carolina Pottery Outlet Center, Smithfield, N.C. The company also operates closeout stores under the name Toys Unlimited.

* * *

ROCHELLE PARK, N.J. — **Toys "R" Us** announced that second quarter earnings spurted 32.8 percent to $685.8 million from $516.6 million in the same quarter last year. Same store sales gained 16.6 percent. For the first half, sales gained 34.6 percent to $1.33 billion from $990.6 million in the first six months of 1987. TRU operates 314 toy stores in the United States, 37 international stores, 112 Kids "R" Us children's clothing stores and four department stores. On July 29, Kids simultaneously opened 28 stores, including its first units in Southern California.

* * *

CHICAGO — The **National Sporting Goods Association** will hold its annual fall show October 20 to 22 at McCormick Place in combination with the **Imprinted Sportswear Show**. NSGA will occupy the East Hall at McCormick Place; both shows will share the North Hall. NSGA president and chief executive officer James Falinek said that there will be a "natural crossover of attendees between the shows," and "attendees will be able to find new products and companies more efficiently." Bobby Knight, head coach of Indiana University's men's basketball team, will be the breakfast speaker October 21. For additional information, call the National Sporting Goods Association at (800) 843-9090.

* * *

NEW YORK — Organizers of the **National Stationery Show** announced the addition of two new divisions debuting at the 1989 event: Home Office Products and Prints and Posters and Artists Supplies. Both new sections will be formally introduced at the show, scheduled for May 21 to 24 here at the Jacob Javits Convention Center.

SPORTING GOODS HARD LINES

Sporting Goods Megastores Continue Expansion

(Continued from page 101)
megastore criteria of size and selection were operating.

Sports Authority, Fort Lauderdale, Fla., appears to be leading the expansion flight. In October, it will open two stores in Tampa, Fla., on top of its first units in Fort Lauderdale and North Miami. Next spring, it intends to open stores in Clearwater and West Palm Beach, Fla., said president Jack Smith, followed by six others in Florida through next fall. All stores will occupy 40,000 square feet.

By September 29, Oshman's is expecting to open two more of its SuperSports USA stores of about 30,000 square feet, one in Carle Place, N.Y., and one in Union, N.J. In '89, it will open four more SuperSports units, based on its Princeton, N.J., prototype.

Also in October, Sports Town, Atlanta, will open three more sporting goods warehouses, all in the Atlanta market, said president and founder Tom Haas. The chain now operates two of the 50,000-square-foot warehouse clubs, both of which are located in Atlanta.

Sportmart, which has been operating 40,000-square-foot stores since 1970 from its Niles, Ill., base, will open two more in Southern California, pushing its count to 21.

One of the Sportmart sites will be across the street from the San Bernardino warehouse club of All American SportsClub, said Robert C. Cole, vice president, general counsel of Sportsmart.

Head-to-Head Competition

Apparently, this will be the first head-to-head encounter of sporting goods megastores. Operators heretofore have picked their markets to avoid direct competition, but All American SportsClub is presently in a vulnerable position.

The chain fell victim to overexpansion and filed Chapter 11 last spring. Since then, SportsClub has closed two of its eight California clubs and scrapped plans to open four others in Phoenix, Ariz.

Founder Robert J. McNulty said he has changed his mind about trying to sell the chain and expects to emerge from Chapter 11 next February. The deadline for filing a bankruptcy reorganization plan is Oct. 15, he said.

"It's premature to talk about resuming expansion," he said.

Instead, SportsClub is upgrading existing stores by revamping the athletic shoe departments to a full-service concept, McNulty said. The first reformatted store, Torrance, Calif., will be completed around Oct. 1, he said.

Stepping up its expansion scale from three new stores in 1988, Sportmart expects to open next year "several more" megastores in each of its markets, Chicago and Los Angeles, Cole said.

And, adding emphasis to the sporting goods megastore trend, MC Sporting Goods, Grand Rapids, Mich., now part of the Thrifty Corp. family of sporting goods chains, expects to open in 1989 four more of its large stores in its Michigan, Ohio and Illinois market areas, executive vice president Raleigh Finklestein said. MC Sporting Goods already runs 30,000-square-foot stores in Lansing, Mich., and in the Detroit suburb of Troy, Mich.—K mart's hometown.

K mart originally announced it would open the first of four planned sporting goods membership warehouse clubs late this summer. But problems locating sites delayed the first openings until next March or April, a spokeswoman said. K mart is still looking for two more test unit sites.

K mart's first Sports Giant clubs, offering some 35,000 sku's, will be located in shopping centers in Madison Heights and Livonia, Mich., both in the Detroit market.

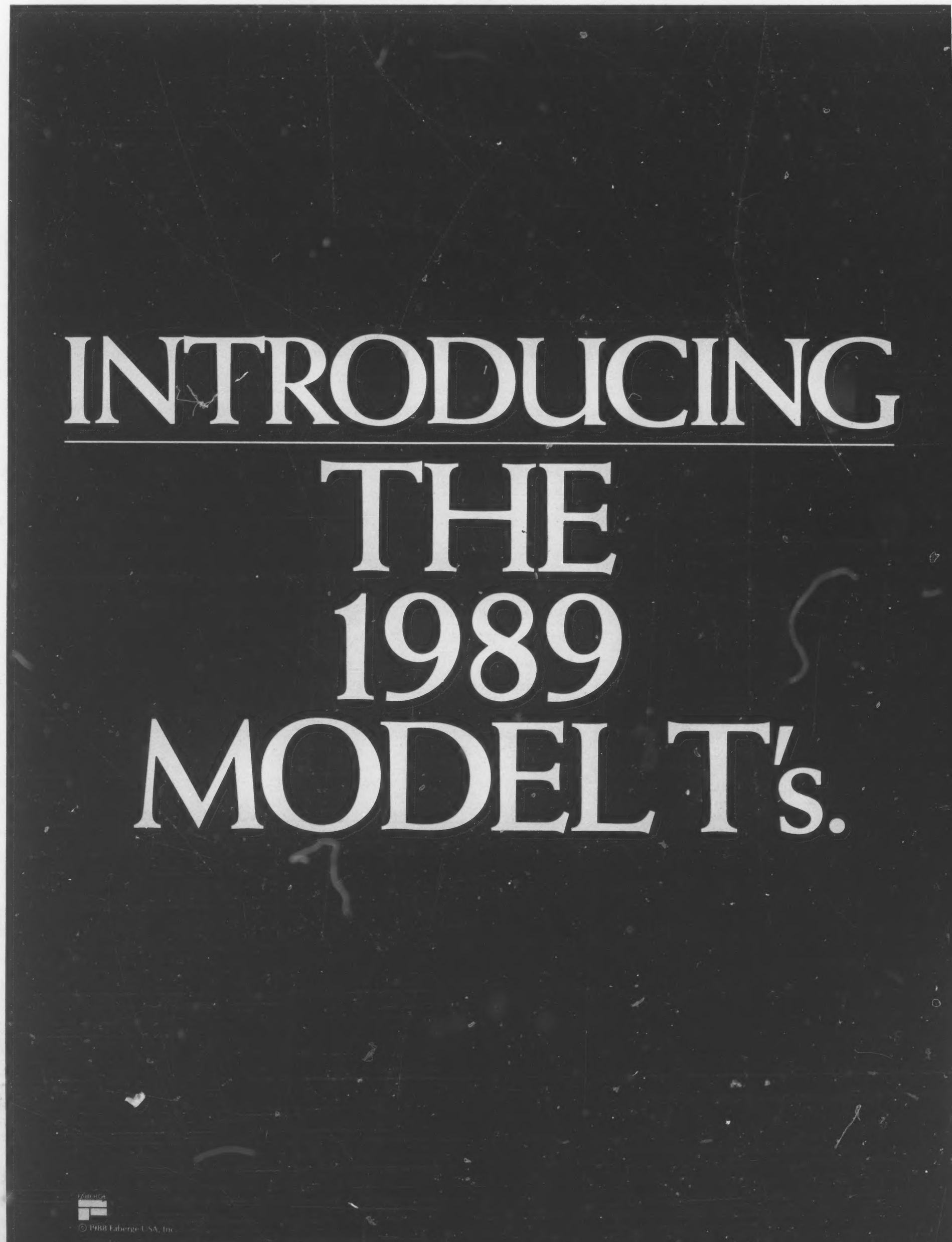
Denver-based Gart Bros., also part of Thrifty Corp., is planning to open 75,000-square-foot Sports Castle units in St. Louis and Kansas City, Mo. It now operates a Gart Bros. Sports Castle store in Denver, opened 18 years ago, and one in Salt Lake City.

The two planned stores will be called Casey's Sports Castle, incorporating the name of the chain Gart acquired before Thrifty bought it. The company has not decided exactly when the new store will open, vice president Ken Gart said.

Herman's, the national chain recently acquired by Dee Corp., and which dominates the sporting goods industry with 1987 sales of $762 million from 242 stores, is one chain that is bucking the megastore bandwagon.

Herman's, Carteret, N.J., follows a "very successful, dominant strategy" of operating stores averaging 10,000 square feet, said George Walker, vice president, sales promotion. For the foreseeable future, Herman's will stick to its own formula, Walker said, and entertains no plans to open megastores.

Those chains that are opening megastores are avoiding areas of Herman's strength,
(Continued on page 103)



Sports Authority, Ft. Lauderdale, Fla. leads the megastore expansion parade, expecting to open 10 more by next fall. (DSN photo)

Sporting Goods Megastores Expand In Non-Competitive Market Areas

(Continued from page 102)

Walker said, with the exception of Oshman's, which with its SuperSports megastore, invaded Herman's home territory of northern New Jersey.

Megastore pricing strategies range from the deep discounting of clubs such as Sports Town to the everyday low prices of Sports Authority to the highly promotional pricing of SuperSports.

The merchandising concept also varies from the warehousing presentation of Sports Town to the high tech (and high cost) glitz of SuperSports (see accompanying profile, page 105).

Those operating warehouse-type stores also differ over membership fees. Sports Authority has no membership fee, while All-American SportsClub charges $10. Sports Giant also plans to charge a fee of "less than $10."

Sports Town charged a $5 fee when it opened its first membership club, Oct. 15. But customer opposition prompted it to scrap its fees after several weeks, Haas said.

SportsClub intends to stick with its $10 fee, McNulty said. Such fees represent 2 percent of gross, he said.

Those who acknowledge being a discounter, such as Sports Town, are encountering difficulties in acquiring key brands, including Reebok and Nike, which dominate the vital footwear category.

Sports Town carries neither Reebok nor Nike. "I'm proud to be a discounter," said Haas, who was the first chief operating officer of SportsClub, but declined to comment on why he doesn't carry the two top athletic shoe brands.

Obtaining Branded Goods

When SportsClub declared bankruptcy, McNulty blamed difficulties in obtaining brand goods for part of his financial problems. Since then, he has made progress in dealing with vendors, McNulty said. Except for Reebok and Nike, SportsClub now carries almost all major brands of footwear, including L.A. Gear.

"It remains to be seen" whether K mart's Sports Giant will carry Reebok and Nike shoes, a K mart spokeswoman said.

"It's tough to predict whether K mart" will be able to obtain Reebok and Nike, said Jim Spring, president of NPD/Smart, a marketing consulting firm in Fort Washington, N.Y. "K mart's power is overwhelming in a little industry like sporting goods."

Yet, image-conscious vendors, such as Reebok and Nike, may just bide their time and watch how Sports Giant merchandises, Spring predicted. Demand is high, and already there is plenty of price promotion, he said.

"Some vendors are more particular how their products are displayed and promoted," said Cole, of Sportsmart. "It all has to do with how you deal with your vendors. If you're a discounter, you have trouble getting merchandise."

It's going to take a couple of years for the megastore concept to prove it can succeed, said Tom Doyle, director of research for the National Sporting Goods Association, a retailer trade group. Product turnover will be a key factor in success or failure, he said.

Consumers may buy a TV for every room in the house, but they'll buy only one exercise cycle for their home, Doyle said. Multiple sales aren't there, he said.

The emergence of the sporting goods megastore will prompt the development of more niche marketing, predicted NSGA's Doyle. As an example, he cited Recreation Equipment, based in Seattle, which specializes in selling cycling, camping and mountaineering equipment in 12,000-square-foot stores—or larger than the average, "full-line" Herman's store.

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Kroger Wards Off Hafts?

CINCINNATI — Price Saver parent Kroger has come out swinging in reaction to becoming the latest potential takeover target of the Haft family.

In a pre-emptive strike to ward off Herbert Haft and his son, Robert, Kroger announced that it is considering offering its present stockholders a special dividend of $40 in cash and a deferred interest bond worth $8. Through such a strategem, Kroger hopes that it will remain a public company, owned by the present stockholders.

That announcement came Sept. 13, the day after the Securities and Exchange Commission confirmed that it has given the Hafts antitrust approval to buy an unspecified position in Kroger.

Earlier this year, the Hafts, which control Trak Auto and Crown Books, got SEC permission to buy $15 million stakes in Zayre and F. W. Woolworth. But they never followed with a tender for them, as they previously had for Bradlees' parent, Stop & Shop. To fend off the Hafts, Stop & Shop management took the company private in a $1.1 billion leveraged buyout. Then to pay down its massive debt, Stop & Shop sold to the Hechinger home center chain the leases for 58 Bradlees stores for $118 million. (See *DSN*, Sept. 12, page 1).

Price Savers and Price Club Face Off

(Continued from page 5)

In a recently released report on the warehouse club industry, Mandel described Phoenix as a growing market, but cautioned that the area's anticipated eight warehouse clubs (four each for Price Club and Price Savers) "will [result in] only 240,000 people per warehouse, making it a more saturated market [at least by this measure] than Southern California."

Despite that tentative outlook, early results at the two Phoenix-area Price Savers created "one of the most successful [soft] openings in our history," Grimm said.

Grimm cited accessible and visible locations, Price Saver's more retail-oriented approach to the membership club business, and the market's receptiveness as the key reasons for the early success. "We are looking for very big things out of Phoenix . . . and we continue to examine other [growth] possibilities," he said.

Analyst Mandel also cited Price Savers' consumer slant as a factor that may enable it to carve a successful niche in this sun-baked market. "We believe it likely a strong retail-oriented warehouse club operation like Price Savers can profitably coexist with an already dominant Price Club and its wholesale merchandising orientation," he said.

Price Savers, is also among the industry leaders in utilization of technology. Both of Price Savers' new Phoenix-area stores opened with point-of-sale UPC scanning capabilities, and as of this month, all Price Savers' warehouses are using the system.

Grimm said scanners speed register time and reduce errors, while enabling quick inventory analysis at the warehouse and corporate levels. The next move will be to start scanning members' cards instead of manually inputting the information.

In addition to the POS scanners, Grimm said the warehouses are also equipped with hand-held scanners for verification and checking of inventory on the warehouse floor.

The two Phoenix locations also opened with optical departments, what vice president of operations Kevin Campbell calls: "One of the most dramatic areas to show a value." Campbell said the chain is now operating five optical centers, but is still evaluating whether the service will be rolled out to all locations.

The chain's next opening will be in Florence, Ky., in October. Grimm said Price Savers, with volume expected to reach about around $600 million this year, will be able to absorb all of its opening costs this year, and be profitable at the same time.

Target Buys 31 Gold Circles; Poised for Nat'l Expansion

(Continued from page 5)

Target, which would not confirm the purchase price, said the acquired locations—currently operating as both Gold Circle and Richway stores—will be completely remodeled and then opened as Target stores next spring.

Los Angeles retail analyst Thomas Tashjian of Seidler Amdec Securities said he expects the chain will spend an additional $66 million in transition expenses.

The sites range in size from 75,000 square feet to 130,000 square feet with the average running at about 94,000 square feet—just under the 100,000-square-foot Target prototype, according to Target spokesman George Hite.

Hite said the stores will be easier to remodel than the 51 Gemco's the company acquired in 1986, since these latter locations required the removal of some grocery store fixtures and plumbing.

The acquisition was an "opportunity we couldn't afford to pass up," said Hite, who added, "They are not only in good markets, but also in good locations in those markets."

The new territory places Target in a competitive market, where top discounters Wal-Mart and K mart both operate. Hite acknowledged that the Southeast area is a tough market, but he said "there is nobody there like us. We feel our traffic record would suggest we will do well even in competitive markets."

"Target is different enough to succeed," agreed N. Richard Nelson Jr., retail analyst with Duff and Phelps in Chicago. "Target will be able to mesh these stores very well from a geographic and operational standpoint."

Nelson said existing area distribution centers and knowledge gained from prior acquisition changeovers should enable Target to make a smooth transition when the chain opens the stores next year. The out-of-stock problems Target faced in 1987, when it opened the former Gemco's, will probably not be repeated in the Southeast.

Currently, Target operates 332 stores in 26 states and the chain expects to have 341 stores in 27 states by January. Growth during the remainder of this year will place Target in New Mexico for the first time, and additional stores will be added to the chain's portfolio in Michigan, Washington state and California.

K mart has units in 48 states and Wal-Mart operates stores in 23 states.

Target said the Southeast store openings next spring will not affect the other planned '89 openings. Although Hite said next year's entire schedule has not been announced, he did report that 22 stores will open in February and July, primarily in Michigan and the Pacific Northwest markets.

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Spurned Takeover Offers Put Catalogers in Play

Nationwide DSN Report

The takeover frenzy has finally hit the Big Two catalog showrooms—Best Products and Service Merchandise.

Best has turned down as "inadequate" a $522 million offer from an undisclosed party to buy all its outstanding common stock for $21 a share, but is "exploring strategic options" to enhance or maximize shareholder value, including "a possible sale of the entire company."

At Service, a management group, headed by president Raymond Zimmerman, decided at presstime to call off a proposed leveraged buyout of the cataloger at around $13.50 a share. The announcement of the buyout—valued at about $460 million—triggered a run-up in Service's stock to a new high of just under $15 before the shares fell back to the $13 to $14 range.

Any company taking over either cataloger would have to directly supply the financing. Neither Best nor Service has any subsidiary business nor do they own a large amount of real estate that could be sold. This situation had

(Continued on page 156)

Ames Applies Tourniquet

Risky Acquisition Puts the Pressure On: Hollis Unveils Plan to Staunch Zayre Red Ink

By Peter Hisey

ROCKY HILL, Conn. — Faced with the difficult task of integrating the troubled 388 Zayre stores into his company's operations, Ames president and ceo Peter Hollis introduced a six-point plan to restore the Zayre stores to profitability.

Under the plan, Ames will concentrate on balancing everyday low prices and promotional pricing, narrowing and deepening the product mix, cutting out-of-stocks, becoming more fashion-forward, cleaning up the stores and weeding out "under-performing" stores.

Hollis has conceded that the mid-September acquisition has an element of risk. Ames will be attempting to turn around one of the discount industry's institutions, one that has so far resisted the best efforts of a tough, experienced Zayre management team.

Can Ames (and Hollis) do what industry pioneers Sumner and Stanley Feldberg and Maurice Segall couldn't? Ames' answer is yes.

"We see Zayre as being a major contributor to our future profits," Hollis told an an-

(Continued on page 156)

Fashion Plays Second Fiddle To Future of Discounting

Few Execs Wowed by MAGIC Offerings

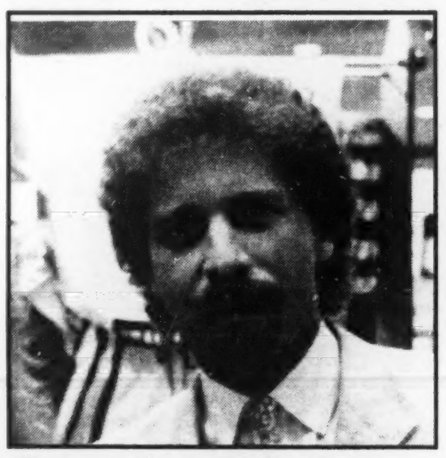
By Kenneth M. Chanko

LOS ANGELES — With no strong fashion direction or hot new item on the horizon in men's wear, the talk in the aisles among discounters at last month's Men's Apparel Guild in California show was about the changing face of the discount industry.

With the imminent demise of Gold Circle—with its stores set to be divided among three other discounters—and Ames Department Stores' acquisition of the Zayre discount store chain, merchandising executives mused about the industry's future.

Most said they weren't surprised by recent developments.

"This kind of thing's been going on for the last couple of years now," said the president of a regional discounter, who asked to remain anonymous. "Cook, Murphy's, Gemco, Danners. And who knows how much longer Heck's will be around."



Zayre activewear buyer Bruce Bressler at MAGIC: 'Right now, at least, it's business as usual,' following Ames' acquisition of the chain. (DSN photo)

(Continued on page 28)

Specialty Megastores Multiply

Office Warehouse Joins Bandwagon

By Laura Liebeck

VIRGINIA BEACH, Va. — The burgeoning office products supply business has a new player: Office Warehouse, a retail venture partly owned by chemicals giant, W.R. Grace, which will open its first unit here in December.

The new chain was founded by Bernard Kossar, a former Grace executive who was most recently chief executive officer of Home Quarters Warehouse, a warehouse-style home improvement chain.

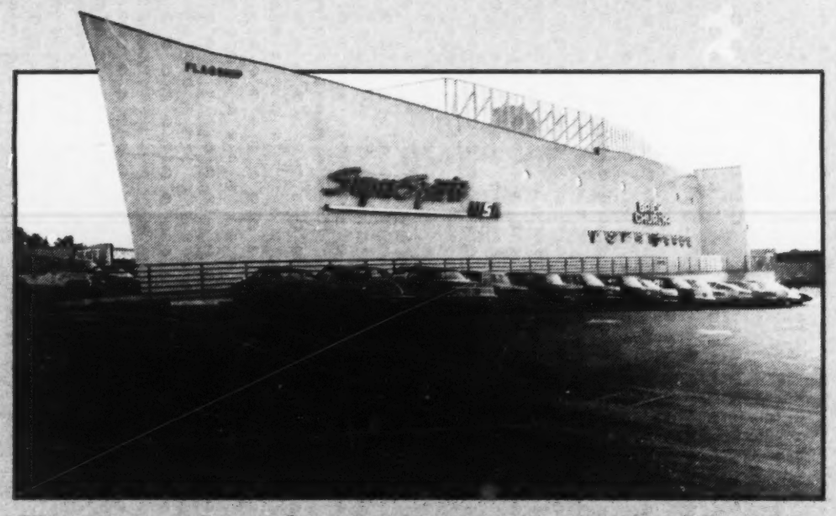
Office Warehouse plans to open 10 more stores throughout Virginia, North Carolina and South Carolina by the end of 1989, according to spokesman J. Larry Pacey, vice president of marketing.

The development of Office Warehouse marks the re-entry of W.R. Grace into the retail sector.

Grace was a major player in the home improvement business before it sold Channel Home Centers and Home Quarters Warehouse to Hechinger, a home improvement chain, last December.

Both companies declined to disclose the extent of Grace's interest in Office Warehouse.

(Continued on page 28)



The newest SuperSports shares a berth with CE retailer Brick Church in the Flagship Building, Union, N.J. (DSN photo)

SuperSports Set to Add 2 More Units

By Richard C. Halverson

UNION, N.J. — Oshman's was set to open in October two more of its SuperSports USA sporting goods megastores. The new units, scheduled to celebrate grand openings Oct. 6, are in Union, in northern New Jersey, and Carle Place, N.Y., on Long Island. Both are located within the New York metro market—and in the backyard of sporting goods industry leader Herman's, Carteret, N.J.

Their openings come just a year after Oshman's opened its first SuperSports unit in Princeton, N.J. A fourth unit is under construction in Smithtown, N.Y., also on Long Island. Oshman's is negotiating for a fifth site in Paramus, N.J., said Bob Zetelski, vp, hard lines merchandising.

In an interview last month at an industry pre-opening reception, Zetelski projected that Oshman's will be operating 25 SuperSports stores by 1992. All will be in the Northeast, far from its Houston home base.

"You don't want to drop an atomic bomb on your own stores [conventional Oshman's units of about 12,000 square feet]," Zetelski said. "There's not much future in that, so you go somewhere else."

(Continued on page 28)

Lechmere to Sell on Prodigy; System Adds 4 New Markets

By Arthur Markowitz

WHITE PLAINS, N.Y. — Lechmere, within the next 30 days, will become the second discounter to use PRODIGY, the interactive computer shopping and information service that earlier this month became available in four additional markets.

K mart was the first discounter to tie into PRODIGY. The chain set Feb. 1, 1989, as the target date for the its debut on the service (see *DSN*, Aug. 22, page 1).

Lechmere expects to start merchandising on PRODIGY later this month or early in November. Unlike K mart, which plans to use PRODIGY mainly as an institutional advertising vehicle, Lechmere will actually sell goods through the service.

The signing up of Lechmere, supermarket wholesaler Nash Finch and a number of other retailers and service providers came as PRODIGY earlier this month:

- Inaugurated a 15-month, $30 million national advertising

(Continued on page 156)

SPECIAL REPORT

1988 Top Brands—Part I: Store Manager Survey

MARKETWATCH

Big Bear Taps Chief for Hypermarket Div.

COLUMBUS, Ohio — Big Bear Plus, the discount store/supermarket combination experiment operated by Harts' parent, Big Bear Stores, named John Hill to head up the hypermarket-type operation. Hill was promoted from a food merchandiser position with Big Bear. Big Bear Plus will open its fourth store next month in Wapakoneta, Ohio. The Wapakoneta unit will be the first Big Bear Plus unit that did not result from the conversion of adjacent Big Bear supermarkets and Harts into the new prototype. The new store will be considerably smaller than its 100,000-square-foot to 140,000-square-foot predecessors, occupying 75,000 square feet in a former Cook United site.

Three Discounters Expand in Pacific NW

SEATTLE — Fred Meyer, ShopKo and Target continue to expand in the Pacific Northwest. Longtime area leader, Portland, Ore.-based Fred Meyer will open a new full-size superstore this November in Kent, Wash., while Minneapolis-based Target will open two discount stores this fall in Washington state and additional stores in the Pacific Northwest next year. Green Bay, Wis.-based Shopko has announced it will open stores in Kennewick and Walla Walla, Wash., next summer. Shopko first entered the Pacific Northwest last year, while Target opened its first group of stores in the area in July.

Schultz Bros. Shutters All Retail Operations

LAKE ZURICH, Ill. — Schultz Bros. Co., a privately held chain of 51 discount and variety stores in Wisconsin, Illinois, Indiana, Iowa and Minnesota, is liquidating its retail operations. James Ryan, director of personnel, said 1,200 employees at the company's stores, headquarters and distribution center will be affected by the closings. The action was taken because the company continued to suffer substantial continuing losses in its retail operations despite major restructuring of management and merchandising philosophy over the past two years. According to Ryan, the company is negotiating with several discounters regarding the possible sale of its 16 larger (30,000 square feet to 50,000 square feet) discount stores and with a number of investment groups over its 35 smaller (8,000 square feet to 12,000 square feet) variety stores. The 87-year-old retailer posted $65 million in sales last year.

Cataloger W. Bell Posts Turnaround

ROCKVILLE, Md. — Cataloger W. Bell made a major turnaround in its operation, going to a $1.2 million profit on $117.8 million in sales for the fiscal year ended June 25 from a net loss of $8 million on $129.9 million in volume in the previous fiscal year. A key factor in the turnaround was the closing of its five-store Houston division, which produced an extraordinary credit from utilization of net operating losses of $459,000 on $11.2 million in sales. Bell's 18 ongoing showrooms in the fiscal year generated a net income of $706,000 on $117.8 million in volume.

BJ's Offers Preferred Member Cards

NATICK, Mass. — BJ's has begun offering group members a preferred membership card that costs $30 a year—the same as for business members—and enables them to buy merchandise at the listed wholesale price, rather than the 5 percent surcharge levied on free group member cards. An additional preferred member card costs $10 annually. BJ's first tested its Inner Circle preferred member card at its Smithtown, N.Y., store. BJ's was among the few membership clubs that didn't offer a preferred card.

Jewelcor to Shutter Texas Units

WILKES BARRE, Pa. — Jewelcor Jewelers & Distributors expects to close its four Texas showrooms at the end of the month to reduce its store count to 11 units. The cataloger cited the weak Texas market as the reason for shutting the three units in Fort Worth and one in Austin. Sales at the four showrooms had dropped from about $36 million in 1984 to a projected $20 million this year, with mounting losses, Jewelcor president Mark Holtzman said. Jewelcor's future expansion, likely to begin next year, will be in the Northeast, particularly New Jersey and Pennsylvania, where it has most of its stores, he added.

TRU Sells Off Remaining Dept. Stores

PARAMUS, N.J. — Toys "R" Us sold its two-unit department store division to management and other investors for an undisclosed sum. The stores involved in the leveraged buyout are the Boston Store in the Albany-Schenectady, N.Y., area and the Fair, Flint, Mich. The two department stores were all that remained of Interstate Department Stores, from which TRU evolved after Interstate emerged from Chapter 11 bankruptcy in 1976. TRU also announced it expects to log a pretax gain of $2 million on the sale during its third quarter ending Oct. 30.

Antonini Squashes Buyout Rumors; 'No Restructuring Planned,' He Says

TROY, Mich. — K mart chairman Joseph E. Antonini denied a published report that he was negotiating with takeover specialist Kohlberg, Kravis & Roberts to purchase the $25.6 billion discounter and take the company private.

Antonini also rebuffed speculation that he would restructure K mart to fend off a corporate raid. The K mart chairman released a statement declaring that there "had been no such talks and no restructuring planned."

A spokesman for Kohlberg, Kravis & Roberts declined to comment, saying the firm does not comment on rumors. K mart spokesman Robert Stevenson, vp of governmental affairs and public relations, took a similar position.

USA Today reported on Sept. 23 that KKR was acquiring K mart stock, possibly in preparation for a takeover.

KKR is widely known as the biggest specialist in leveraged buyouts, but is more commonly viewed as a friendly suitor.

Most recently, KKR made an unsolicited bid to acquire Kroger, the Cincinnati-based supermarket chain (see story) and is attempting to buy book publisher Macmillan Inc.

Initially, K mart stock rose sharply in active trading in response to the KKR rumor but fell back to normal levels within days of the report.

Several retail analysts were split on the feasibility of a KKR takeover of the retail giant, the second-largest retailer in the country.

Jack Siebald, vp at Salomon Brothers, called the prospect of the KKR takeover of K mart "highly unlikely." But Fred Wintzer, analyst with Alex. Brown & Associates, thought the proposal was "a possibility at first."

K mart is vulnerable, said Wintzer, because of its real estate holdings and its old and very valuable store leases. In addition, K mart stock has historically traded at far below book value.

However, Siebald said that K mart's mammoth size would require an almost prohibitive amount of capital, at least $10 billion and as high as $13 billion, by some industry estimates, making it an awesome undertaking and an unlikely takeover candidate.

Hurricane Gives Discounters Whirlwind Sales

Consumers Storm Stores for Basics

BROWNSVILLE, Tex. — Early preparations, such as fortifying inventories and boarding up store front windows, enabled most southern Texas discounters to avoid heavy damage from Hurricane Gilbert and even capitalize on a whirlwind of emergency buying by area residents.

Wal-Mart, K mart and other chains with stores in markets affected by the storm said units were closed in compliance with requests by city officials, but were reopened shortly afterward.

Wal-Mart closed 14 stores in southern Texas, but "experienced extremely good sales before and during the storm," said Stacy Duncan, company spokeswoman. She said stores closed for a short period to insure the safety of personnel and to comply with local mandates. Food sales at Sam's Wholesale Clubs also experienced a significant increase.

Area K mart stores also experienced "brisk" sales during the days just prior to the storm, according to chain spokeswoman Leslie Kota.

Leonard Johnsen, vice president, operations at Abilene, Kan.-based Duckwall-ALCO, said the chain's two stores in the threatened area also experienced a pre-hurricane sales surge, but sales dropped below normal levels once the storm passed.

"Our customers evidently spent the disposable income they had in preparation for the storm. Once it was over, they had nothing left to spend," Johnsen said. The two southern Texas ALCOs were closed for two days.

Kroger to Spin Off Price Savers Club

CINCINNATI — Kroger will spin off its Price Savers Wholesale Warehouse Club as part of a restructuring plan aimed at fending off takeover attempts by Kohlberg, Kravis, Roberts & Co. and the Dart Group.

Price Savers, a 16-unit warehouse club operation headquartered in Salt Lake City, Utah, will be acquired by an investment group composed of current Price Savers management and led by president Tom Grimm.

"We're very excited about the opportunity," said Grimm, who declined to disclose the purchase price.

The investment group also includes Kroger, which intends to maintain a 20 percent stake in Price Savers, Goldman, Sachs & Co. and Broad Street Investment Fund I, L.P., of which Goldman Sachs is the general partner.

Price Savers collected $300 million in sales last year from 12 units, six of which were operating for the entire year.

This fiscal year, which ends on Dec. 31, should produce slightly less than $600 million in sales, said Grimm.

The sale of Price Savers is part of a program to raise $333 million in after-tax proceeds from the divestiture of various store sites and real estate holdings.

IN THIS ISSUE

Top Brands
Part I: Store Manager Survey 33

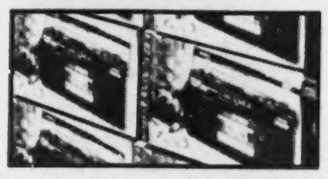
National Brand Growth Continues at Even Pace 35
Best Performers Noted for Advertising 43

APPAREL 59

Men's: Jeans Dynamic Duo Back on Top 59
Ladies': Discount Momentum Propels Gitano 60
Children's: Upscaling Upsets Performance 63
Cosmetics: Advertising Named Key to Success 65

HOME PRODUCTS 113

Domestics: Cannon Retains Crown 113
Household Chemicals: Tide Takes Honors 115



Photo, Camera: Kodak Banks on Familiar Name 117
Housewares: Rubbermaid and Corning Are Tops 118
CE: Three New Names Crack the Top 10 121
Personal Care: Newcomers Scramble Category 123

HARD LINES 129

Automotives: Pennzoil Races to Top 129
H&BA: Crest, Colgate Extend Dominance 131

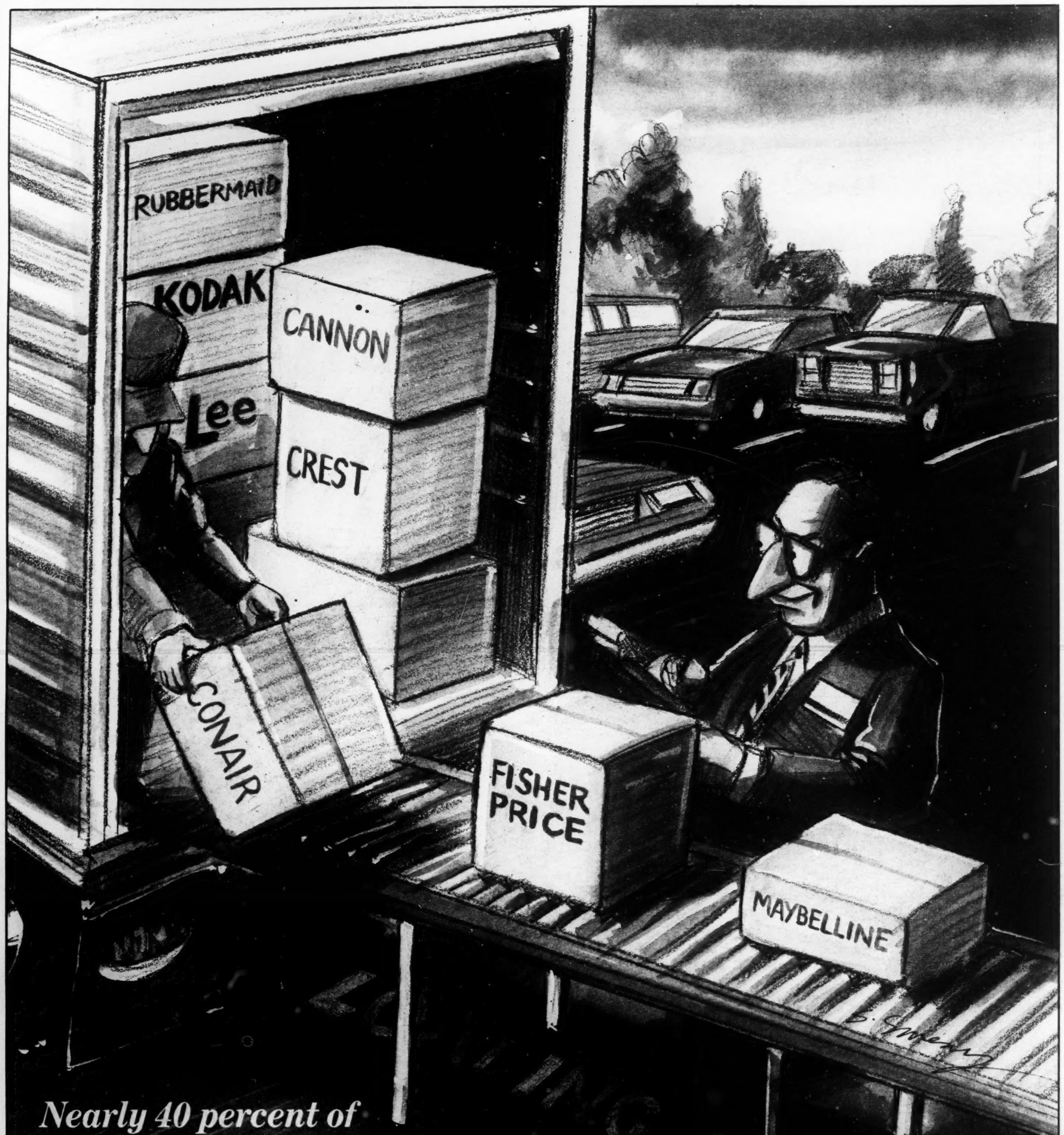
Sporting Goods: Wilson, Coleman Top List 132
Toys: Fisher-Price, Mattel Remain Tops 135
Stationery: Consumer Brand Recognition Crucial 136
Hardware: Stanley, Black & Decker Cited 139
Food: Hershey's, Snickers, M&M Named 141

DEPARTMENTS

At the Source:
Apparel 66
Hard Lines 142
Classified 153
Columns:
Membership Warehouses 4
Washington Report 6
Editorial 6
Executive Changes 24
Manufacturer News:
Home Products 127
Hard Lines 143
Newsbriefs 149
Retail Resources 26
Retail Management Development Series 30

TOP BRANDS

Part I: Store Manager Survey



Nearly 40 percent of discount stores nationally are carrying more name brands than they were last year. Overall, managers named fewer brands per category as top performers, but the relative strength of the top brands increased sharply in most departments.

Name Brand Growth Continues at Even Pace

By Peter Hisey

The decline in the growth rate of brand name presence in discount stores leveled off this year, after national brand growth fell significantly in 1987 compared to 1986.

Nearly four out of 10 store managers reported that the number of name brands carried in their store is greater in 1988 compared to a year ago, an exclusive poll sponsored by *Discount Store News* and conducted by Chicago-based market research firm Leo J. Shapiro & Associates revealed.

That figure is identical to the number of managers citing name brand growth a year ago, but 9 percentage points lower than reported in both 1985 and 1986. In '85 and '86, nearly half of all discount store managers surveyed said their stores were carrying more name brands than the previous year.

The survey, which was conducted in July, quizzed 304 managers of both conventional and upscale discount stores around the country. The managers were asked to name the best performing brands in each of 17 categories, from household cleaners to ladies' apparel. Then, they were asked why they chose those particular brands (see story, page 43).

Mentions Decline Slightly

Overall, brand mentions declined slightly, as managers named fewer brands per category (see graph) compared to past years. However, the relative strength of the top brand names increased sharply in most categories.

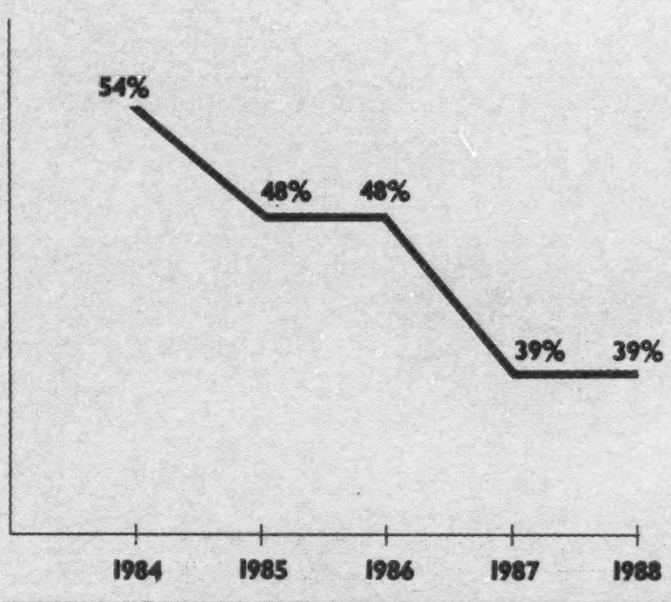
For instance, while the percentage of managers mentioning Kodak as among their best performing brands in the photo and camera department slipped slightly from 84 percent last year to 80 percent this year, its lead over second-ranked Polaroid increased by 9 percentage points. Polaroid, which maintained its second place ranking, was mentioned by 34 percent of managers compared to 47 percent the year before.

A little over three-quarters of managers reported some increase in brand names in at least one department. The leading departments in brand growth were housewares (23 percent reported an increase) and health and beauty aids (21 percent), with men's apparel (15 percent), ladies' apparel (13 percent) and sporting goods (10 percent) also experiencing brand growth. Less than 10 percent of managers reported an increase in the number of brand names carried in each of the other departments.

These results are consistent with 1987's tally, as housewares and H&BA led the way last year. However, two leaders from last year, cosmetics and household chemicals, both fell back in brand growth, and no department really made significant gains to offset the decline.

National Brand Name Growth at Discounters

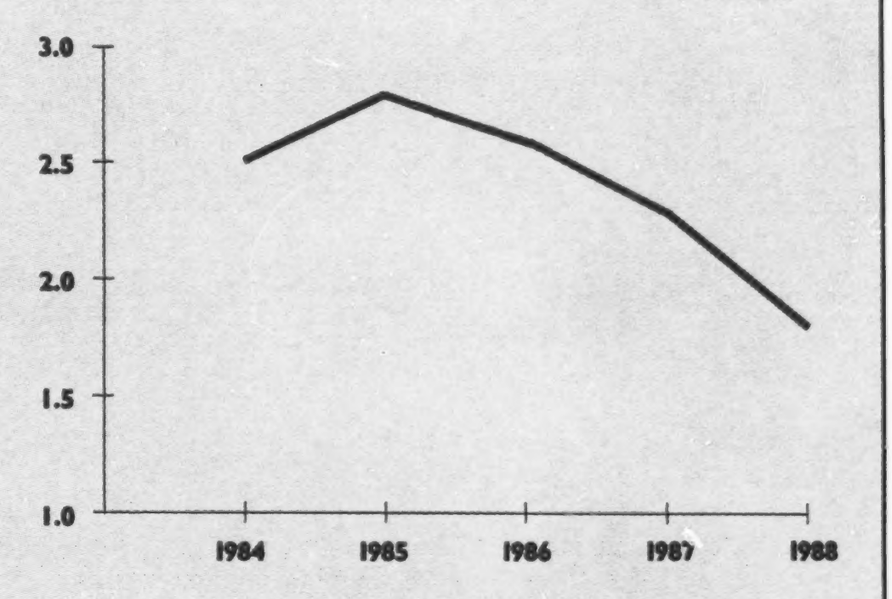
Percent of store managers reporting increase in number of name brands carried in their store:



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Managers Grow More Selective In Naming Top Performers

Average number of brands mentioned per manager as top performers in each department:



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

It is unlikely that discounters have become disenchanted with brand names. Along with a slowdown in brand mentions has come an increasing concern with product quality. It appears managers feel that if they can find a good, reliable product at a price point consistent with their operations, it will perform well.

According to the survey's findings, managers appear to be saying that they have enough brands now. Any new addition to their departments will most likely come at the expense of another name brand.

With the exception of apparel departments, discounters now have access to virtually any major national brand in most categories. And, with the growth of Gitano and widespread availability of staple brands like Lee, apparel isn't lagging very far behind other discount departments.

The increase in fashion names has been well documented, and discounters seem to be more satisfied with their product mix than in the past.

Additionally, many of the brands not available (or only recently showing up on discounter shelves) are attainable only at a price—lower margins. If discounters wish to compete for department store brands, for instance, they may actually have to pay more for them, and then sell them for less.

In the case of fashion items, that may mean virtually no profit. With shelf and floor space at more of a premium than ever, discounters are understandably cautious about adding low-profit goods, no matter how much traffic they would generate.

While housewares and H&BA were the most likely departments to experience brand name growth overall, there were significant differences in emphasis among the major chains surveyed.

Upscalers as a whole were much more concerned with upgrading their brand presence in consumer electronics (12 percent) than were conventional discounters (4 percent). The same held true in toys, automotives and H&BA, although with less contrast.

Upscale discount store managers, probably because they already had more name brands in the department, saw less growth in ladies' and children's apparel brands, but were just as likely as conventional discount store managers to report growth in men's apparel brand names.

This was particularly true at Target. Of Target managers reporting some brand growth, one-fifth singled out

(Continued on page 36)

Where Name Brands Are Growing

Percent of store managers reporting increase in number of name brands carried by department:

Department	1988	1987	1986	1985	1984
Housewares	23%	24%	20%	22%	22%
Health & Beauty Aids	21	21	17	14	22
Men's Apparel	15	11	14	16	21
Ladies' Apparel	13	10	16	18	22
Sporting Goods	10	11	9	5	4
Hardware	9	8	11	9	10
Household Chemicals	7	NA	5	3	NA
Cosmetics	7	10	6	9	3
Children's Apparel	6	3	3	5	5
Consumer Electronics	5	8	9	6	7
Food, Candy, Snacks	5	2	5	2	3
Automotives	4	6	3	3	4
Toys	2	4	4	2	1
Domestics	2	3	4	3	11
Stationery	2	NA	NA	NA	NA
Photo, Camera	1	1	2	3	2

NA—not available *Source:* Discount Store News/*Leo J. Shapiro & Assoc.*

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